

**FINANCIAL REPORT  
ALANSON AREA PUBLIC LIBRARY  
June 30, 2008**

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## FINANCIAL SECTION



January 21, 2009

Independent Auditors' Report

Board of Trustees  
Alanson Area Public Library  
Alanson, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of the Alanson Area Public Library, Michigan, as of and for the year ended June 30, 2008, as listed in the table of contents. These financial statements are the responsibility of the Alanson Area Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Alanson Area Public Library as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Alanson Area Public Library has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined to supplement, although not required to be part of, the basic financial statements.

*Hill Schroderus & Co.*

CERTIFIED PUBLIC ACCOUNTANTS  
Petoskey, Michigan

**ALANSON AREA PUBLIC LIBRARY**  
**GOVERNMENTAL FUND BALANCE SHEET/STATEMENT OF NET ASSETS**  
**June 30, 2008**

	Modified Accrual Basis General Fund	Building Fund	Total Governmental Funds	Adjustments	Statement of Net Assets
<b><u>Assets</u></b>					
Cash	\$ 165,189	\$ 44,979	\$ 210,168	\$ -	\$ 210,168
Fixed assets, net of accumulated depreciation	-	-	-	34,764	34,764
Total assets	<u>\$ 165,189</u>	<u>\$ 44,979</u>	<u>\$ 210,168</u>	<u>\$ 34,764</u>	<u>\$ 244,932</u>
<b><u>Liabilities and Fund Balances/Net Assets</u></b>					
Liabilities:					
Deferred revenue	<u>\$ 4,075</u>	<u>\$ -</u>	<u>\$ 4,075</u>	<u>\$ -</u>	<u>\$ 4,075</u>
Fund balances:					
Reserved for building	-	1,616	1,616	(1,616)	-
Unreserved:					
Designated for building	106,637	43,363	150,000	(150,000)	-
Undesignated	<u>54,477</u>	<u>-</u>	<u>54,477</u>	<u>(54,477)</u>	<u>-</u>
Total fund balances	<u>161,114</u>	<u>44,979</u>	<u>206,093</u>	<u>(206,093)</u>	<u>-</u>
Total liabilities and fund balances	<u>\$ 165,189</u>	<u>\$ 44,979</u>	<u>\$ 210,168</u>		
Net Assets:					
Invested in capital assets				34,764	34,764
Restricted for building				1,616	1,616
Unrestricted				<u>204,477</u>	<u>204,477</u>
Total net assets				<u>\$ 240,857</u>	<u>\$ 240,857</u>

**ALANSON AREA PUBLIC LIBRARY**  
**STATEMENT OF GOVERNMENTAL FUND REVENUE, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE/STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2008**

	Modified Accrual Basis		Total Governmental		Statement of
	General Fund	Building Fund	Funds	Adjustments	Net Assets
Revenues:					
State grants	\$ 903	\$ -	\$ 903	\$ -	\$ 903
Penal fines	40,791	-	40,791	-	40,791
Charges for services	11,300	-	11,300	-	11,300
Book sales	1,795	-	1,795	-	1,795
Fees and fines	715	-	715	-	715
Interest	4,690	89	4,779	-	4,779
Donations	2,115	5,955	8,070	-	8,070
Grants	-	10,000	10,000	-	10,000
Total revenues	62,309	16,044	78,353	-	78,353
Expenditures:					
Current:					
Salaries	20,670	-	20,670	-	20,670
Payroll taxes	1,635	-	1,635	-	1,635
Supplies	3,004	-	3,004	-	3,004
Membership dues	6,453	-	6,453	-	6,453
Insurance	286	-	286	-	286
Education	293	-	293	-	293
Transportation	146	-	146	-	146
Internet services	3,833	-	3,833	-	3,833
Telephone	534	-	534	-	534
Rent	11,300	-	11,300	-	11,300
Miscellaneous	1,172	-	1,172	-	1,172
Equipment non-depreciable	154	-	154	-	154
Books	5,894	-	5,894	(5,894)	-
Leasehold improvements	-	14,428	14,428	(14,428)	-
Depreciation	-	-	-	6,131	6,131
Total expenditures	55,374	14,428	69,802	(14,191)	55,611
Other financing sources (uses):					
Operating transfers in	-	43,363	43,363	(43,363)	-
Operating transfers out	(43,363)	-	(43,363)	43,363	-
Total other financing sources (uses)	(43,363)	43,363	-	-	-
Excess (deficiency) of revenues over expenditures	(36,428)	44,979	8,551	14,191	22,742
Fund balance, beginning	197,542	-	197,542	20,573	218,115
Fund balance, ending	\$ 161,114	\$ 44,979	\$ 206,093	\$ 34,764	\$ 240,857

See accompanying notes to financial statements.

**ALANSON AREA PUBLIC LIBRARY**  
**STATEMENT OF REVENUES , EXPENDITURES AND CHANGES IN**  
**FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**For the Year Ended June 30, 2008**

	Original Budget	Final Budget	Actual	Over/(Under) Budget
Revenues:				
State grants	\$ -	\$ -	\$ 903	\$ 903
Penal fines	32,000	40,780	40,791	11
Charges for services	6,300	11,300	11,300	-
Book sales	1,200	1,200	1,795	595
Fees and fines	400	400	715	315
Interest	3,000	3,000	4,690	1,690
Donations	250	2,000	2,115	115
Total revenues	43,150	58,680	62,309	3,629
Expenditures:				
Current:				
Salaries	21,350	22,350	20,670	(1,680)
Payroll taxes	1,650	1,650	1,635	(15)
Supplies	1,100	2,400	3,004	604
Membership dues	3,100	6,201	6,453	252
Insurance	350	350	286	(64)
Education	200	200	293	93
Transportation	100	130	146	16
Internet services	1,850	2,004	3,833	1,829
Telephone	500	500	534	34
Rent	6,300	11,300	11,300	-
Miscellaneous	2,000	4,126	1,172	(2,954)
Equipment non-depreciable	-	-	154	154
Books	4,650	5,782	5,894	112
Total expenditures	43,150	56,993	55,374	(1,619)
Excess (deficiency) of revenues over expenditures	-	1,687	6,935	5,248
Other financing sources (uses):				
Operating transfers out	(150,000)	(150,000)	(43,363)	106,637
Net change in fund balance	(150,000)	(148,313)	(36,428)	111,885
Fund balance, beginning	211,477	211,477	197,542	(13,935)
Fund balance, ending	\$ 61,477	\$ 63,164	\$ 161,114	\$ 97,950

**ALANSON AREA PUBLIC LIBRARY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2008**

***NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

The Alanson Area Public Library was organized as a district library on March 24, 1977, under the provisions of Act 164, P.A. 1955, repealed and replaced by Act 24, P.A.1989, as amended. The library operates under an appointed Board of Trustees. The Village of Alanson and Littlefield Township appoint two members each.

**Reporting Entity**

The Library has followed the guidelines of the Governmental Accounting Standards Board's Statement No. 14 and has determined that no entities should be consolidated into its financial statement as component units. Therefore, the reporting entity consists of the primary government financial statement only.

**BASIC FINANCIAL STATEMENTS – OVERVIEW**

Alanson Area Public Library's basic financial statements include both government-wide (reporting the Alanson Area Public Library as a whole) and fund financial statements (reporting the Alanson Area Public Library's major funds). Both the government-wide and the fund financial statements categorize government activities as governmental. Governmental activities are normally supported by taxes and intergovernmental revenues.

**BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements report information on all of the nonfiduciary activities of the Alanson Area Public Library. As a general rule the effect of interfund activity, such as interfund loans, has been eliminated from these statements. The government-wide focus is more on operational efficiency, the sustainability of the Alanson Area Public Library as an entity, and the change in the Alanson Area Public Library's net assets resulting from the current year's activities.

In the government-wide Statement of Net Assets, the governmental activities are presented on a consolidated basis. Due to the full accrual, economic resource basis, all long-term assets and receivables, as well as long-term debt and obligations are recognized. The Alanson Area Public Library's net assets are reported in three parts – invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Alanson Area Public Library first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities demonstrates the degree to which the direct expenses of the Alanson Area Public Library are offset by program revenues. This statement reduces gross expenses (including depreciation) by related program revenues, which include charges for services, operating grants and capital grants.



## NOTE TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIC FINANCIAL STATEMENTS – GOVERNMENT-WIDE STATEMENTS – CONTINUED

The program revenues must be directly associated with providing Alanson Area Public Library type services. Program revenues include:

- (1) Charges to customers who purchase, use, or directly benefit from goods or services provided by the Alanson Area Public Library; and
- (2) Grants and contributions that are restricted to meeting the operational or capital requirements of the Alanson Area Public Library. Taxes and other items not properly included among program revenues are reported as general revenue.

#### BASIC FINANCIAL STATEMENTS – FUND FINANCIAL STATEMENTS

The financial transactions of the Alanson Area Public Library are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. The focus of the fund financial statements is upon the determination of financial position and changes in financial position (sources, uses, and balances of financial resources).

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The emphasis in the fund financial statements is on the major funds. GASBS No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures of the governmental funds) for the determination of major funds.

#### Governmental Funds

The following is a description of the major governmental funds of the Alanson Area Public Library:

**General Fund** – The General Fund is the general operating fund of the Alanson Area Public Library. It is used to account for all financial resources except those required to be accounted for in another fund.

**Building Fund** – The Building Fund is used to account for moneys received specifically for major leasehold improvements. The source of these monies is primarily donations and grants for this specific purpose as well as transfers from the General Fund designated for this purpose.

#### BASIS OF ACCOUNTING

Basis of accounting refers to the point at which revenues and expenditures/expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

## NOTE TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

#### BASIS OF ACCOUNTING – CONTINUED

The government-wide statements are reported using the economic resources measurement focus and the full accrual basis of accounting, which incorporates long-term assets and receivables as well as long-term debt and obligations. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded in the accounting period in which they are earned, as long as they are both available and measurable. Revenues are available when received within the current period or within 60 days after year-end. Expenditures are recorded in the accounting period in which the liability is incurred, as under full accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

#### ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

##### Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

##### Interfund Receivables/Payables

Outstanding balances between funds are reported as "due to/from" other funds on the balance sheet of the fund financial statements.

##### Capital Assets

Capital assets, which include books, equipment and leasehold improvements are reported in the government-wide financial statements. Capital assets are recorded by the Alanson Area Public Library when the initial individual costs are equal to or greater than \$1,000 and have useful lives greater than a year. Any addition or improvement that either enhances a capital asset's efficiency or extends its expected useful life is also capitalized.

Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Books, equipment and leasehold improvements are depreciated using the straight-line method over the following useful lives:

Books	5 years
Equipment	5 years
Leasehold improvements	40 years

## **NOTE TO FINANCIAL STATEMENTS – CONTINUED**

### ***NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED***

#### **ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY – CONTINUED**

##### **Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Currently the Alanson Area Public Library has no long-term obligations.

##### **Fund Equity**

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

#### **COMPARATIVE DATA**

Comparative data for the prior year is not included in the Alanson Area Public Library's financial statements.

### ***NOTE 2: STEWARDSHIP COMPLIANCE AND ACCOUNTABILITY***

The Library uses the following procedure in establishing the budgetary data reflected in the financial statements:

Prior to the start of each fiscal year, an operating budget is adopted for the General Fund on a basis consistent with generally accepted accounting principles. Reported budgeted amounts are as originally adopted or as amended by the Library Board of Trustees. During the year, the Library did not expend in excess of budgeted amounts.

### ***NOTE 3: CASH***

Michigan Compiled Laws, Section 129.91, authorizes the Local Unit to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

## NOTE TO FINANCIAL STATEMENTS – CONTINUED

### NOTE 3: CASH – CONTINUED

*Custodial Credit Risk – Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. At June 30, 2008, the carrying amount of the Library's deposits was \$210,168 and the bank balance was \$213,781, of which \$121,711 was covered by federal depository insurance. The remaining amount was uninsured and uncollateralized. State statutes prohibit security in the form of collateral, surety bonds or another form be taken for the deposit of public funds. The Library may experience significant fluctuations in deposit balances through the year.

### NOTE 4: CAPITAL ASSETS

Capital assets are defined by the Library as assets that are purchased or acquired with an original cost of \$1,000 or more and a useful life in excess of one year. The Library considers its collection of books to be a group asset which is capitalized by the Library. All books purchased during each year are capitalized as one asset amount with no depreciation being recorded in the first year. Capital assets and related depreciation are reported in the government wide columns of the financial statements. Depreciation is calculated using the straight-line method and the books have an estimated useful life of five years.

Capital asset activity for the Library was as follows:

	Balance July 1, 2007	Additions	Disposals	Balance June 30, 2008
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 14,428	\$ -	\$ 14,428
Capital assets being depreciated:				
Books	55,655	5,894	5,000	56,549
Accumulated depreciation:				
Books	35,082	6,131	5,000	36,213
Net capital assets being depreciated:	20,573	(237)	-	20,336
Governmental activities net				
Capital Assets	\$ 20,573	\$ 14,191	\$ -	\$ 34,764

Construction in progress is composed of the following:

	Project Estimate	Expended to June 30, 2008	Committed
Library renovation	\$ 275,000	\$ 14,428	\$ 119,012

Funding for the project is to come from donations, grants and an amount of \$150,000 that has been designated from past accumulated operating surpluses.

## **NOTE TO FINANCIAL STATEMENTS – CONTINUED**

### ***NOTE 5: DEFERRED REVENUE***

Deferred revenue of \$4,075 consists of a half years Library services prepaid by Littlefield Township.

### ***NOTE 6: OPERATING LEASES***

The Library has a verbal lease agreement with the Littlefield Alanson Management Authority for its building. The Library now pays an annual amount of \$16,300 and the lease can be terminated by either party at any time.

### ***NOTE 7: RESERVED/DESIGNATED FUND BALANCES/RESTRICTED NET ASSETS***

The Library has designated \$150,000 for leasehold improvements of the Library's current building. There is also an additional \$1,616 unspent donations, reserved/restricted for this purpose, as well.

### ***NOTE 8: RISK MANAGEMENT***

The Library is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters.

The Library maintains workers compensation insurance for Library employees. The Library relies on the landlord of its building for liability insurance. Contents insurance was not in place during the fiscal year.



January 21, 2009

COMMUNICATION OF MATERIAL WEAKNESS IN INTERNAL CONTROL AND OTHER MATTERS

Board of Trustees  
Alanson Area Public Library  
Alanson, Michigan

In planning and performing our audit of the financial statements of the governmental activities and each major fund of Alanson Area Public Library as of and for the year ended June 30, 2008, in accordance with auditing standards generally accepted in the United States of America, we considered Alanson Area Public Library internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the governmental unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the governmental unit's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness.

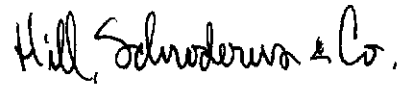
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. We believe that the following deficiency constitutes a material weakness:

The Library does not have the expertise to prepare financial statements in accordance with generally accepted accounting principles. According to newly issued auditing standards this inability to prepare financial statements in accordance with generally accepted accounting principles is an indicator of a significant deficiency and a strong indicator of a material weakness in internal control.

We did note the Library's management does possess the skill necessary to prepare and monitor the annual budget. The accounting system which is designed primarily for budgetary purposes is also used as the source information in preparing the financial statements in accordance with generally accepted accounting principles with some adjustment, format differences and note disclosures.

This communication is intended solely for the information and use of management, Library Board, others within the organization, and State of Michigan and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Hill, Schroderus & Co.".

HILL, SCHRODERUS & CO.  
Certified Public Accountants